

**Entrepreneurship as a Core Economic Development Strategy
for Rural America**
Professor Brian Dabson
Associate Director, Rural Policy Research Institute
Truman School of Public Affairs, University of Missouri-Columbia

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My task is to provide the committee with my perspectives on how entrepreneurship works to energize and evolve regional economies, and what federal policy can and cannot do to help. I shall be focusing my remarks on rural America as that is where all my current work and energies are directed, but I think many of the principles I shall be discussing have relevance to all regions across the urban-rural continuum.

The increasing competitive global economy has forced major restructuring in rural regions and communities in many painful ways – whether we are talking about prices for farm commodities or the collapse of textile and carpet manufacturing, or the structure of the retail sector. Moreover, there have been dramatic changes on the rural landscape as some regions experience continuing net population loss, while others are seeing substantial immigration, whether it is the healthy and wealthy moving to high amenity areas, or the poor and the aspiring looking for affordable living conditions and opportunity. Still others are dealing with the warm embrace of metropolitan expansion and increasing suburbanization. What is clear, rural America is changing and becoming ever more diverse and complex – which in turn challenges government policies and actions to be correspondingly flexible and responsive.

These forces bring two fundamental economic and community development principles into play. The first is the search for the unique sources of **competitive advantage** that help to build a long-term sustainable economy. The more communities fail to identify their distinctiveness and succumb to the pressures of conformity and homogeneity -- look no further than any highway exit across the nation – the more difficulty they will find in coping with the sweeping changes underway. The second is the identification of **assets** that can be built upon to support the competitive advantage. In every community, there are valuable human, economic, social, physical, natural, cultural, and institutional assets that can be leveraged for vitalization efforts. What ties competitive advantage and community assets together is **entrepreneurship**.

Entrepreneurship is becoming increasingly recognized as the core economic development strategy in rural America. Many economic developers talk about the three legs of a stool – attraction, retention, and entrepreneurship or homegrown. At the RUPRI Center for Rural Entrepreneurship, we believe this analogy to be unhelpful as it only serves to emphasize their separateness, reinforced by the fact that in spite of decades of debate that have cast doubts over the utility and effectiveness of recruitment as an economic development strategy, it remains the dominant activity across the country, with short shrift being given to entrepreneurship development.

Our preference is to think of a pyramid, where the most effort and resources should be spent at the base, on entrepreneurship, creating an environment of encouragement and support for initiative and creativity; this in turn improves the ability of regions and communities to retain and expand existing businesses; which in turn makes the same regions and communities attractive to incoming businesses and investment. Where the assets of a region or community are the least well-developed, the emphasis of policy needs to be on building and capitalizing upon human entrepreneurial assets, not on desperately trying to attract firms from elsewhere.

There are several reasons for the increasing interest in entrepreneurship in rural regions and communities. First and foremost, the traditional approaches of recruitment and retention are just not working for most places, and leaders are looking for viable alternatives. Second, there is a growing body of evidence from the Global Entrepreneurship Monitor, prepared annually by Babson College and the London School of Economics, on the critical role that entrepreneurs and small businesses play in driving local and national economies. Third, the structure of rural economies is essentially composed of small enterprises, which are responsible for most of the job growth and the innovation, and in any event, small businesses represent an appropriate scale of activity for most rural economies.

The research, technical assistance, and convenings conducted by RUPRI's Center for Rural Entrepreneurship over the past three years, coupled with my observations as the director of the Kellogg Foundation/CFED's *Entrepreneurship Development Systems in Rural America* project, has enabled me to identify four principal components of a successful entrepreneurship development strategy.

First, there has to be a **community culture of support** for entrepreneurs. Local communities need the tools and resources to identify and build upon their assets, to make choices that appropriately balance economic, social, and environmental imperatives, and to be able and open to learn from others' experiences. At the same time, there has to be **connection to the wider region**. Only through regional cooperation across multiple jurisdictions and through regional institutions can there be sufficient scale, resources, and expertise to enable local communities to play their full role.

Second, the strategy has to be **entrepreneur-focused**. Entrepreneurship is as much human development as it is business development. Gone should be the days where agencies supply 'one size, fits all' programs and expect entrepreneurs to come knocking on their door. As Tom Lyons and Gregg Lichtenstein have observed, entrepreneurs vary substantially in their levels of education, skills, motivation, and general readiness. In terms of motivation alone, we can identify survival entrepreneurs, lifestyle entrepreneurs, growth entrepreneurs, and serial entrepreneurs, each of whom have different needs, but all of whom have a role to play in rural and regional economies. There is no way in which we can identify in advance which entrepreneur is going to be the one in twenty who will grow to have significant economic impact. We should be encouraging a diverse pool of entrepreneurs out of which there will be a steady stream of growth entrepreneurs that will drive the local and regional economy.

Third, a **systems orientation** has to be central to the strategy. Instead of the present situation, where there are a plethora of independent, turf-oriented providers of advice, training, technical assistance, and capital access – far too confusing for entrepreneurs to navigate – a systems approach would encourage better use of scarce resources, overcome ‘turfism’ and focus the multiple players around common goals. The concept is a “no wrong door” rather than a “one stop shop”. This was the central theme of the Kellogg/CFED project, in which the foundation wanted to invest in a variety of approaches that would create or enhance a systems approach. We defined this as a coordinated infrastructure of public and private supports that facilitate entrepreneurship, and which is comprehensive, flexible, culturally appropriate, and integrated. We then left it to the imagination and ingenuity of applicants to show us how they would meet these criteria.

It is worth noting that 182 applications were submitted from rural regions in 47 states, and included in these were 27 proposals that straddled state lines. Over 2,000 organizations were directly involved in the process as part of collaboratives. There was a vast array of lead organizations, including regional development organizations, universities, community colleges, community action agencies, community foundations, microenterprise development organizations, small farms groups, and school districts just to name a few.

We determined that 61 applications met the basic criteria, and ultimately Kellogg agreed to fund six at \$2 million each – in Oregon, New Mexico, South Dakota, Nebraska, West Virginia, and North Carolina. All these applications were able to demonstrate how they could bring together entrepreneurship education (K-adult), training and technical assistance, access to debt and equity capital, and networking, and at the same time serve hard-pressed communities, and link to policy at the state level.

This brings me back to my fourth component: the need to connect community success and learning to the policy-making process. Even if only a fraction of the resources dedicated to recruitment were redirected by state governments to entrepreneurship, this would change attitudes across rural America. But it is important that communities are able to tell their stories and that rigorous evaluation and impact assessments are undertaken. In addition, policymakers need to be able to hear directly the voices of the spectrum of entrepreneurs so that they can respond more appropriately to their needs.

We are still learning about the many different models that are emerging across rural America which provide some exciting options and possibilities for the future. We are seeing:

- The emergence of **statewide rural centers**, either part of or at arm’s length from state governments, which are shining a new spotlight on rural issues, concerns, and opportunities.
- The creation of new **networks of enterprise facilitators** who work at the grass-roots level to identify, counsel, and support entrepreneurs in rural communities as well as the re-tooling of existing networks for the same purpose, such as the extension services and the small business development centers.

- The use of sophisticated **community capacity-building programs** that enable communities to identify their assets and plan new place-based economic development strategies.
- The application of **information and distance learning technologies** to overcome the barriers of distance and lack of infrastructure.
- The piecing together of **systems of business support** that bring together the staff and resources of institutions and agencies who have never before worked together. And
- The engagement of young people through creative **entrepreneurship education** programs.

We have seen an extraordinary commitment, creativity, and resourcefulness shown by individuals, communities, and organizations across rural America. The **themes of entrepreneurship and of regional and institutional collaboration**, which were the hallmark of the project, provided the impetus for thinking afresh about how rural areas can chart a new economic future for themselves. Entrepreneurship had attracted enthusiastic attention across the diversity of geography, ethnicity, and culture that comprises rural America. The call for regions and institutions to explore common futures and to make the best use of scarce human and financial resources appeared to mark a shift from generations of destructive competition and narrow-mindedness to the possibilities of forging new regional and national competitive advantages. The fact that 2,000 organizations came forward to engage with entrepreneurship and regionalism tells me that there is a significant pent-up demand for this type of approach.

So what does this mean for **federal policy**? I am nervous about suggesting that there should be some sort of entrepreneurship program, because in many ways we designed the Kellogg project to overcome “programitis”, where funding streams determined the precise nature of local action and presented barriers to collaboration and innovation. If the federal government were able to live with a **greater degree of flexibility**, allowing decisions to be made at the local level about the what, the who, and the how, albeit within a framework of preset criteria, then that would be very much in the spirit of entrepreneurship. If **funds could be made available across departments**, so that a wide variety of organizations could become engaged from healthcare to agriculture to education to commerce, then that would better reflect the range of entrepreneurial possibilities at the regional and community level. But may be these are bridges too far.

However, high up on my agenda would be four priorities.

First, financial support for **community capacity-building** and strategic planning using tried and tested models and curricula to maximize the chances of action.

Second, the institutionalizing of **entrepreneurship education** within the K-12 school system, in ways that teachers have the resources to be properly trained again using tried and tested curricula, and are able to integrate experiential entrepreneurship learning into the No Child Left Behind Framework.

Third, provide options for **affordable healthcare** for entrepreneurial businesses with or without employees.

Fourth, make available funding for **innovative financing models**, such as the Kentucky Rural Innovation Fund, or for the incenting of angel capital networks in poorer rural regions.

Fifth, a large **competitive grant pool** to allow a second and third round of funding based on the Kellogg/CFED model to encourage more collaborative, regional efforts across the country.

To conclude, my perspective is that entrepreneurship development needs to be at the very center of economic development. But the pursuit of entrepreneurship development should be community-centered, regionally-oriented, entrepreneur-focused, systems-based, and fully connected to the political process at the local, tribal, and state levels. With some caution, I think the federal government can be helpful to the process but only if they can find ways of being both collaborative and entrepreneurial.